

VZCZCXRO0975
RR RUEHCHI RUEHCN RUEHDT RUEHHM
DE RUEHJS #0043 0931003
ZNR UUUUU ZZH
R 021003Z APR 08
FM AMCONSUL SURABAYA
TO RUEHC/SECSTATE WASHDC 0188
RUEHJA/AMEMBASSY JAKARTA 0175
INFO RUEHJS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS
RUEHKO/AMEMBASSY TOKYO 0041
RUEHBY/AMEMBASSY CANBERRA 0098
RUEHWL/AMEMBASSY WELLINGTON 0096
RHHMUNA/HQ USPACOM HONOLULU HI
RUEHJS/AMCONSUL SURABAYA 0193

UNCLAS SURABAYA 000043

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR EAP, EAP/MTS

E.O. 12958: N/A

TAGS: [ECON](#) [PGOV](#) [ENRG](#) [EAGR](#) [ID](#)

SUBJECT: EAST JAVA: GAS CONVERSION PROGRAM TRIGGERS RAPID RISE IN
KEROSENE PRICE AND INFLATION

This message is sensitive but unclassified. Please protect accordingly.

¶1. (SBU) Summary: Government plans to encourage consumers to switch from kerosene to LPG for cooking are triggering long lines, rising prices, and inflation throughout East Java. Public discontent is receiving widespread media attention, but thus far gubernatorial candidates have remained silent. From January-March, East Java's inflation rate reached 3.52% over the previous quarter, spurred primarily by rising prices of kerosene, soybean products, and cooking oil, and yearly inflation is expected to top 9%. End Summary.

Political Costs?

¶2. (SBU) In December 2007, the Indonesian government began implementing its oil conversion program, forcing consumers to switch from kerosene to LPG for cooking. Three months later, kerosene shortages, long lines, and rising prices are dominating East Java's media headlines. With gubernatorial elections just three months away, observers expect that bread-and-butter economic issues (including the economic impact of the Sidoarjo mud flow) will be critical for voters. Thus far, however, no candidate has presented a policy for easing the growing financial hardships. Governor Imam Utomo, who is not running for reelection, told reporters that national petroleum company Pertamina had promised not to reduce kerosene supplies before people were ready to make the conversion. He pledged to take strong measures against those restricting the supply of kerosene.

Gas Conversion Program

¶3. (SBU) Pertamina's gas conversion pilot program in East Java is targeted to reach 5.5 million families in 26 regencies and cities in 2008. Encep Surachman, Pertamina's gas manager in East Java, told the press that while Pertamina is optimistic it can meet this target, the government's gas conversion policy lacks "socialization." The majority of middle and low-income Indonesians use kerosene for cooking and it is difficult to change long-standing habits and perceptions. In support of its gas conversion program, the government planned to reduce the kerosene supply and provide free LPG and stoves to the public, especially the poor. Pertamina will reportedly conduct an aggressive door-to-door public awareness campaign on how to use the LPG stove to increase consumer willingness to switch.

14. (SBU) According to Wibisono, Deputy Chief of Bank Indonesia in Surabaya on Economic and Monetary Affairs, consumers are turned off by the poor quality of government-provided stoves and LPG distribution difficulties have exacerbated the problems. In response, consumers are chasing increasingly limited supplies of kerosene, causing prices to rise rapidly. In March, the price of kerosene was Rp 2,500/liter (USD 0.27). As of April 2, the price had climbed to Rp 8,000/liter (USD 0.86) and local press reports showed residents of Surabaya lining up for 24 hours to buy kerosene. The price of LPG is not making conversion any more attractive to lower and middle-income East Javans. Within the past two months, the price of a 12 kg net weight canister of LPG rose from Rp 54,000 (USD 5.94) to Rp 75,000 (USD 8.25).

Inflation Worries

15. (SBU) According to Wibisono, the price of kerosene (followed by soybean products and cooking oil) is the largest contributor to inflation in East Java. In 2007, East Java's overall inflation rate was 6.5%; for the first quarter of 2008, inflation is estimated at 3.59%. Bank Indonesia predicts that East Java's inflation rate will reach 9% in 2008. Until March, the Statistical Bureau was using the government's official HET (highest retail price) for kerosene (Rp 2,500) to calculate inflation. In March, the Statistical Bureau began using the market price of kerosene to calculate the inflation rate. The high world prices of soybeans and palm oil (CPO) are causing producers to prefer export markets leading to increasing prices of soybeans and cooking oil -- staples of the Indonesian diet. Bank Indonesia is concerned that panic buying and stockpiling will cause prices to increase even further and trigger rapid inflation.

MCCLELLAND